TA7025-14

NARDA
NATIONAL ASSOCIATION
RETAIL DEALERS
OF AMERICA

NASD
NATIONAL ASSOCIATION
OF SERVICE DEALERS
a division of NARDA

1990 Costs of Doing Business Survey

COVERING THE YEAR 1989

$75 PER COPY

Published annually since 1946 by
NARDA, Inc.
10 E. 22nd St., Suite 310
Lombard, IL 60148

Copyright © 1990 by NARDA, Inc. Permission is hereby granted to reprint portions of this report provided that credit is given to: NARDA, Inc., 10 E. 22nd St., Lombard, IL 60148

CONTENTS

Introduction....3

Comparison Charts

- Geographical Breakdowns....4
- Overall Gross Margins....5
- Inventory Turns , Net Profits....5
- Gross Margin Breakdown....6
- Selected Operating Expenses....6
- Sales per Salesperson, per Square Foot....6

Profit & Loss Statements

- Appliance & Electronics Sales & Service....7
- Appliance Sales & Service....7
- Electronics Sales & Service....8
- Appliance, Electronics & Furniture Sales & Service....8
- Electronics Service....9
- Appliance Service....9

Business Profiles

- Appliance & Electronics Sales & Service....10
- Appliance Sales & Service....10
- Electronics Sales & Service....10
- Appliance, Electronics & Furniture Sales & Service....11
- Electronics Service....11
- Appliance Service....11

How to Evaluate Your Business Health

- Operating Statement....12
- Balance Sheet....13
- Explanation of Key Ratios....14

ANNUAL COSTS OF DOING BUSINESS SURVEY

This is the 44th annual Costs of Doing Business Survey published by NARDA. It covers the year 1989.

The charts on this and the following three pages will give you an industry-at-a-glance overview of comparative operating results. A new chart has been added to show you geographic comparisons of some key expense items. The first section of the survey provides the averages obtained from participants' profit and loss statements. The second part of the survey beginning on page10 provides statistics profiling characteristics of the "average" business for various product mixes.

A new question was added to this year's survey so that the report shows you what percentage of the companies which responded charge for old product removal and the average fees charged.

Once again, the report shows key operating ratios for each line of business where sufficient data was provided by the respondents to give valid statistics. An explanation of how these key ratios are determined and their significance as management tools are given on the inside back cover.

Another new feature has been added on page 12. Here you will see a case study analysis of "A Phoney Company." This will show you how the various ratios are used to examine the financial health of a business and where to look for solutions to business problems.

When using this report to compare your financials with industry averages, keep in mind that the averages in this report are based on a range of dealerships, from the most profitable to the least profitable and those in between. The averages are not industry standards or goals. They are indicators of how the mathematically "average" dealer which responded to this survey performs.

If your business is substantially above or below that average in any area, you should re-examine your goals, management philosophy and results to make sure your company is performing according to your standards and to determine how you can improve that perfrmance.

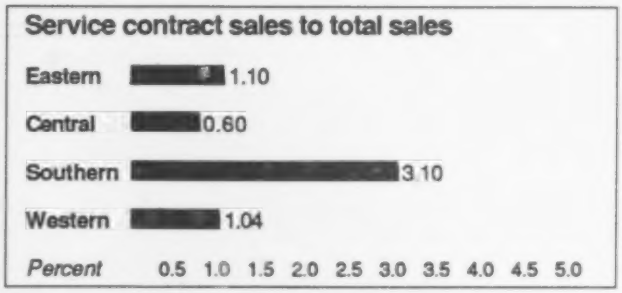
NARDA can help with a variety of member services ranging from in-store consultations to seminars on all aspects of retail and service management, plus low group rates on business necessities such as health and business insurance, sales training materials and bank card discounts.

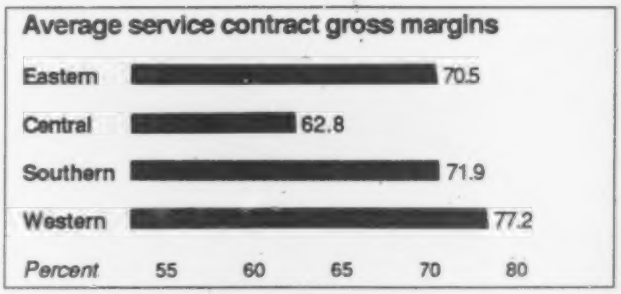
For more information call (708) 953-8950.

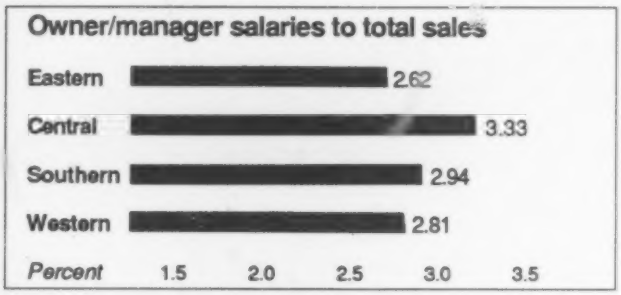
Net return on investment

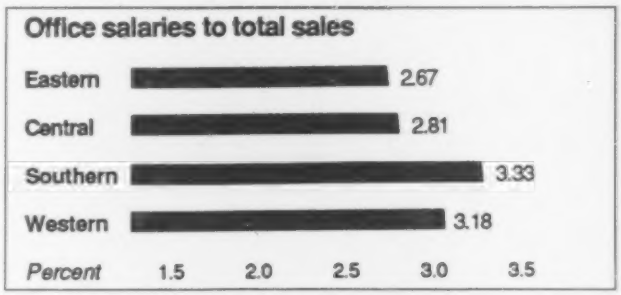
	1989	*1988*	*1987*
Appliance & electronics sales & service	20.5%	11.3%	13.7%
Appliance sales & service	18.3	11.4	09.8
Electronics sales & service	18.0	13.0	16.4
Appl., electronics, furn. sales & service	07.1	08.8	08.0
Electronics service only	06.2	43.9	17.2
Appliance service only	15.6	23.4	12.8

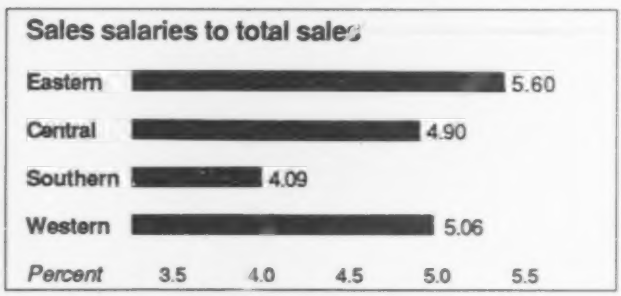
Geographic breakdown *for selected items*

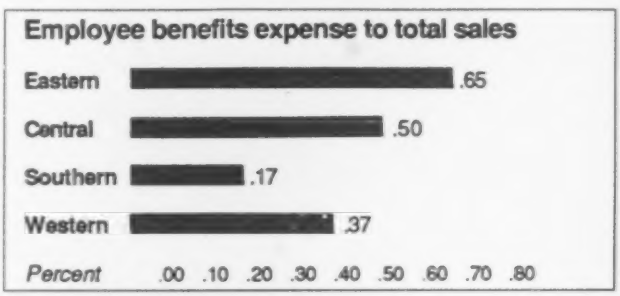

Service contract sales to total sales
Eastern 1.10
Central 0.60
Southern 3.10
Western 1.04
Percent 0.5 1.0 1.5 2.0 2.5 3.0 3.5 4.0 4.5 5.0

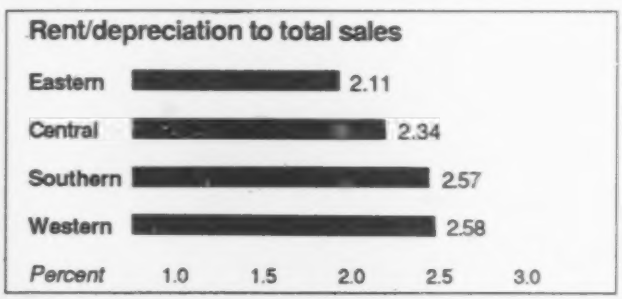


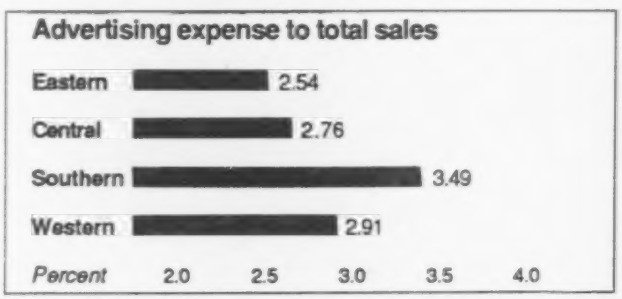


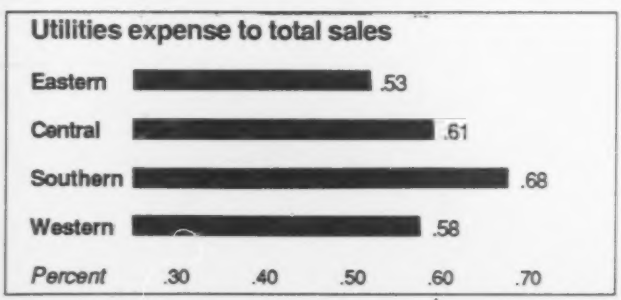






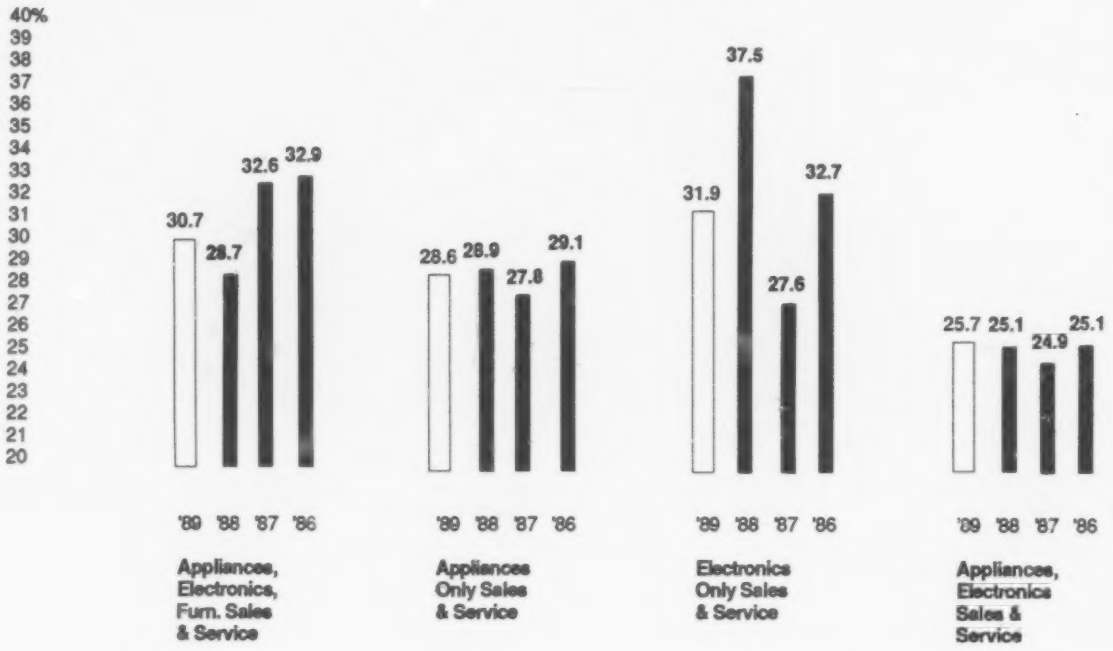






Eastern:	ME, VT, NH, MA, RI, CT, NY, NJ, MD, PA, DE, DC
Central:	MI, OH, WV, KY, MO, KS, IL, IN, WI, MN, IA, ND, SD, NB
Southern:	VA, NC, SC, TN, AR, OK, TX, LA. MS, AL, FL, GA
Western:	AK, HI, WA, OR, CA, ID, UT, MT, WY, CO, NM, NV, AZ

Overall Gross Margins



Inventory Turns & Net Profits

	Number of Inventory Turns not including parts				Net Profit (percent) before taxes			
	'89	'88	'87	'86	'89	'88	'87	'86
Appliance/electronics sales and service	3.7	3.9	4.2	3.8	1.96	1.09	1.60	1.74
Appliances sales & service	3.3	4.4	5.2	3.9	.76	1.20	.76	2.70
Electronics sales & service	2.5	3.4	3.5	3.6	(.96)	2.65	1.96	.94
Appl./Elec./Furn. sales & service	4.0	3.1	2.7	2.8	(.22)	1.58	1.66	3.27

Gross Margin Breakdown

	Merchandise sales			Service Contract sales			Service Labor sales			Parts sales		
	1989	1988	1987	1989	1988	1987	1989	1988	1987	1989	1988	1987
Appl/Elec. sales & service	23.6	22.3	22.4	73.5	74.9	77.1	46.6	41.9	40.9	34.3	34.4	34.6
Appliances sales & service	27.1	25.9	23.6	48.9	41.2	86.1	48.1	42.2	47.9	33.1	33.2	37.6
Electronics sales & service	26.0	29.5	24.0	66.7	92.0	75.0	57.7	51.3	40.1	33.3	18.0	41.3
Appl./Elec./Furn. sales & service	29.8	27.8	30.0	60.0	84.5	87.5	38.6	20.7	49.2	44.4	17.0	42.2
Electronics service only	—	—	—	NA	55.3	67.9	56.4	59.2	56.7	36.4	44.3	30.2
Appliance service only	—	—	—	NA	58.4	67.6	60.7	63.4	61.9	38.1	35.6	39.2

Selected Operating Expenses as a percent of total sales

	ADVERTISING and promotion; net, after co-op.				SALES COMPENSATION salaries and/or commission				OCCUPANCY COSTS rent or building depreciation			
	'89	'88	'87	'86	'89	'88	'87	'86	'89	'88	'87	'86
Appl./Elec. sales & service	2.69	2.99	3.15	3.29	4.19	4.17	4.47	4.37	2.03	2.16	2.11	1.86
Appliances sales & service	3.36	3.77	2.99	2.67	3.56	2.89	2.90	3.23	2.41	2.60	2.47	2.52
Electronics sales & service	2.67	2.87	3.15	5.56	4.95	6.83	4.43	5.86	3.67	3.75	2.25	2.53
Appl./Elec./Furn. sales & service	3.64	3.50	3.51	5.39	6.64	5.54	5.59	5.08	2.81	2.68	2.53	2.96

Sales per salesperson, per square foot

	Annual sales per salesperson			Annual sales per square foot of selling space		
Type of business	*1989*	*1988*	*1987*	*1989*	*1988*	*1987*
Appliance, electronics sales and service	$268,096	$485,302	$527,134	$180	$340	$322
Appliance sales and service	$227,216	$506,430	$490,156	$191	$330	$361
Electronics sales and service	$265,916	$192,422	$429,313	$337	$354	$447
Appl., furn., electronics sales and service	$432,461	$477,558	$401,561	$143	$127	$103

PROFIT & LOSS STATEMENT

	Appliance & electronics sales & service		Appliance sales & service	
NET SALES		**100.00**		**100.00**
Merchandise Sales	100		100	
Labor Sales	100		100	
Parts Sales	100		100	
Service Contract Sales	100		100	
COST OF SALES		**74.30**		**71.36**
Cost of Merchandise	76.36		72.89	
Cost of Labor	53.41		51.92	
Cost of Parts	65.75		66.92	
Cost of Service Contract Sales	26.05		51.09	
GROSS MARGIN		**25.70**		**28.64**
TOTAL OPERATING COSTS		**24.44**		**28.47**
Owner and Manager Salaries	2.66		3.49	
Office Salaries	2.84		2.93	
Sales Salaries	4.19		3.56	
Delivery Wages	1.25		1.65	
Other Payroll	0.69		1.21	
Employee Benefits	0.41		0.33	
Payroll Taxes	0.98		1.09	
Insurance - Group Life & Health	0.55		0.43	
Insurance - Property & Liability	0.70		1.49	
Rent or Building Depreciation	2.03		2.41	
Utilities	0.50		0.63	
Telephone	0.31		0.47	
Yellow Page Advertising	0.13		0.33	
Other Advertising & Promotion	2.56		3.03	
Vehicle lease and/or expense	0.85		0.74	
Equipment lease and/or expense	0.18		0.39	
Depreciation	0.66		0.94	
Licenses & Taxes	0.47		0.61	
Supplies	0.58		0.67	
Professional Fees	0.23		0.33	
Travel & Training Expense	0.15		0.17	
Miscellaneous Expense	1.51		1.57	
NET OPERATING PROFIT		**1.26**		**0.17**
OTHER INCOME		**1.62**		**1.54**
Interest Income	0.48		0.38	
Supplier Rebates	0.65		0.70	
Other	0.49		0.44	
TOTAL INCOME		**2.88**		**1.71**
OTHER EXPENSE		**0.92**		**0.95**
Interest Paid	0.63		0.61	
Other	0.29		0.33	
TOTAL NET PROFIT BEFORE INCOME TAXES		**1.96**		**0.76**

PROFIT & LOSS STATEMENT

	Electronics sales & service		Appl./electronics & furniture sales & service	
NET SALES		100.00		100.00
Merchandise Sales	100		100	
Labor Sales	100		100	
Parts Sales	100		100	
Service Contract Sales	100		100	
COST OF SALES		68.06		69.26
Cost of Merchandise	74.03		70.24	
Cost of Labor	42.26		61.38	
Cost of Parts	66.66		55.65	
Cost of Service Contract Sales	33.33		40.09	
GROSS MARGIN		31.94		30.74
TOTAL OPERATING COSTS		31.84		32.86
Owner and Manager Salaries	5.04		3.17	
Office Salaries	2.49		2.93	
Sales Salaries	4.95		6.64	
Delivery Wages	0.22		1.15	
Other Payroll	0.74		1.19	
Employee Benefits	0.50		0.45	
Payroll Taxes	1.70		1.26	
Insurance - Group Life & Health	0.77		0.60	
Insurance - Property & Liability	1.42		0.85	
Rent or Building Depreciation	3.67		2.81	
Utilities	1.06		0.82	
Telephone	0.63		0.36	
Yellow Page Advertising	0.62		0.06	
Other Advertising & Promotion	2.05		3.58	
Vehicle lease and/or expense	0.89		0.64	
Equipment lease and/or expense	0.27		0.35	
Depreciation	0.93		1.13	
Licenses & Taxes	0.77		0.68	
Supplies	1.13		0.97	
Professional Fees	0.44		0.34	
Travel & Training Expense	0.41		0.27	
Miscellaneous Expense	1.14		2.61	
NET OPERATING PROFIT		(0.10)		(2.14)
OTHER INCOME		0.78		2.57
Interest Income	0.09		1.18	
Supplier Rebates	0.11		0.34	
Other	0.58		1.05	
TOTAL INCOME		0.68		0.43
OTHER EXPENSE		1.64		0.65
Interest Paid	1.72		0.65	
Other	(.08)		0.00	
TOTAL NET PROFIT BEFORE INCOME TAXES		(0.96)		(0.22)

PROFIT & LOSS STATEMENT

	Electronics service only		Appliance service only	
NET SALES		100.00		100.00
Merchandise Sales	-		-	
Labor Sales	100		100	
Parts Sales	100		100	
Service Contract Sales	-		-	
COST OF SALES		58.61		47.12
Cost of Merchandise	00.00		-	
Cost of Labor	43.65		39.30	
Cost of Parts	63.62		61.90	
Cost of Service Contract Sales	00.00		-	
GROSS MARGIN		41.39		52.88
TOTAL OPERATING COSTS		37.17		47.55
Owner and Manager Salaries	4.15		4.44	
Office Salaries	9.49		10.80	
Sales Salaries	-		-	
Delivery Wages	-		0.43	
Other Payroll	0.65		0.46	
Employee Benefits	0.52		1.07	
Payroll Taxes	2.47		4.36	
Insurance - Group Life & Health	2.20		2.39	
Insurance - Property & Liability	2.35		3.52	
Rent or Building Depreciation	4.91		4.17	
Utilities	0.13		0.98	
Telephone	1.30		1.70	
Yellow Page Advertising	1.80		1.75	
Other Advertising & Promotion	0.43		1.66	
Vehicle lease and/or expense	2.51		2.63	
Equipment lease and/or expense	1.35		0.87	
Depreciation	0.25		1.74	
Licenses & Taxes	0.05		0.43	
Supplies	1.15		1.62	
Professional Fees	0.08		0.56	
Travel & Training Expense	0.08		0.62	
Miscellaneous Expense	1.30		1.36	
NET OPERATING PROFIT		4.22		5.32
OTHER INCOME		0.23		0.77
Interest Income	0.20		0.39	
Supplier Rebates	0.03		0.00	
Other	0.00		0.38	
TOTAL INCOME		4.45		6.09
OTHER EXPENSE		0.37		1.40
Interest Paid	0.37		1.11	
Other	0.00		0.29	
TOTAL NET PROFIT BEFORE INCOME TAXES		4.08		4.69

BUSINESS PROFILE

	Appliance & electronics sales & service	Appliance sales & service	Electronics sales & service
PERSONNEL			
Owners/managers	13.6%	11.2%	14.8%
Sales	24.4%	35.3%	27.3%
Service	18.7%	20.7%	25.4%
Office	10.4%	14.5%	11.5%
Delivery	15.1%	13.4%	04.2%
Other	09.6%	04.7%	16.7%
$ Sales per employee	67,140	80,400	72,490
$ Sales per salesperson	268,096	227,216	265,916
COMPENSATION			
Salary only	30%	40%	30%
Commission only	30%	20%	20%
Salary & commission	40%	40%	50%
Other	00%	00%	00%
Average hourly technician wage	$10.70	$9.28	$9.83
Commission based on			
Selling price	30.0%	30%	30%
Gross profit	30.0%	30%	40%
Bonus	10.0%	10%	10%
Spiffs	30.0%	30%	20%
ADVERTISING *percent of budget used for*			
Newspaper	56%	49%	44%
Television	10%	08%	06%
Radio	13%	18%	11%
Yellow pages	11%	20%	26%
Direct mail	07%	04%	11%
Other	03%	01%	03%
SPACE *avg. sq. ft. per location*			
Sales	9,696	4,998	4,102
Office	1,169	868	809
Service	2,214	1,380	1,965
Warehouse	8,684	5,218	2,225
Average number of locations	1.9	1.7	1.8
Average $ sales per sq. ft. selling space	180	191	337
Average $ sales per sq. ft. total space	95	101	158
MISCELLANEOUS			
% of dealers selling service contracts	90%	70%	80%
% of service contracts self-funded	20%	20%	20%
% of dealers charging fee for old product removal	30%	30%	30%
Avg. fee charged for old product removal	$9.75	$11.50	$9.60
RATIOS			
Inventory turns - product	3.75	3.30	1.97
Inventory turns - parts	1.37	3.10	1.75
Current ratio	1.33 to 1	1.49 to 1	2.70 to 1
Quick assets ratio	1.08 to 1	1.10 to 1	0.55 to 1
Net return on investment	20.53%	18.30%	17.98%

BUSINESS PROFILE

	Appl./electronics & furniture sales & service	Electronics service only	Appliance service only
PERSONNEL			
Owners/managers	15.6%	16.1%	17.6%
Sales	26.5%	00.0%	00.0%
Service	10.4%	63.8%	54.9%
Office	19.5%	15.2%	23.5%
Delivery	20.1%	03.8%	01.9%
Other	07.6%	01.1%	02.0%
$ Sales per employee	121,457	35,479	41,733
$ Sales per salesperson	432,461	-	-
COMPENSATION			
Salary only	30%	25%	50%
Commission only	20%	08%	00%
Salary & commission	50%	42%	50%
Other	00%	25%	00%
Average hourly technician wage	$9.50	$11.53	$10.90
Commission based on			
Selling price	40%	100%	100%
Gross profit	30%	00%	00%
Bonus	05%	00%	00%
Spiffs	25%	00%	00%
ADVERTISING *percent of budget used for*			
Newspaper	52%	06%	06%
Television	08%	11%	06%
Radio	18%	08%	00%
Yellow pages	04%	68%	79%
Direct mail	14%	01%	01%
Other	04%	06%	08%
SPACE *avg. sq. ft. per location*			
Sales	16,340	-	-
Office	1,300	1,342	692
Service	1,993	2,257	2,635
Warehouse	11,423	1,333	725
Average number of locations	2.0	1.3	1.1
Average $ sales per sq. ft. selling space	143	-	-
Average $ sales per sq. ft. total space	65	-	82
MISCELLANEOUS			
% of dealers selling service contracts	90%	00%	10%
% of service contracts self-funded	10%	00%	10%
% of dealers charging fee for old product removal	30%	70%	40%
Avg. fee charged for old product removal	$9.75	$12.00	$10.00
RATIOS			
Inventory turns - product	4.01	0.00	0.00
Inventory turns - parts	3.95	2.48	3.99
Current ratio	1.44 to 1	5.03 to 1	3.20 to 1
Quick assets ratio	0.33 to 1	3.60 to 1	1.65 to 1
Net return on investment	7.07%	06.25%	15.57%

How to Evaluate Your Business Health

Our industry has changed dramatically in the last ten years. New competitive store fronts have increased the pressure on everyone's bottom line. Whether the competitive pressure comes from a "mega dealer" or another independent, the need for NARDA members to monitor the financial trends of their businesses very closely has never been more important.

On these pages, we present a fictitious firm named "A. Phoney Company." Several significant changes are seen in the comparison of 1988 to 1989 financial statements.

Financial statements received only once a year will not reveal trouble until too late. That's why NARDA recommends monthly statements for timely tracking of trends. Here are things to look for in financial statements.

First, the **OPERATING STATEMENT** examination.

I. Sales: Merchandise Sales is separate from Labor, Parts and Service Contracts so each can be observed as to their respective profitability. Merchandise Sales grew only 5.0% while Total Sales were up 6.9%. Extended Service Contracts doubled in sales but still amounted to only 2.5% of the firm's total sales volume.

II. Cost of Goods Sold: An increase of 5.6% in the Cost of Merchandise ($841,630 + $796,967) immediately is seen as a loss in margin (Sales went up only 5.0% as noted above).

III. Gross Profit: While Gross Margins increased from 23.7% to 23.9%, the component performance is calculated as follows: Merchandise Sales down to 22.7% from 1988's 23.1%; Labor Sales up to 22.4% from 15.2%; Parts Sales up to 43.7% from 40.3%; Service Contracts up to 36% from 34%. Thus, the major volume category experienced a decrease in gross margin forcing pressure on other revenue producers.

IV. Operating Expenses: In Total, an increase of 1.8 percentage points of expenses (22.3% to 24.1%), when combined with a slipping gross margin in the large category Merchandise Sales, forces management to look at all Operating Expenses.

A. Look at Sales & Commissions. The 1989 total was $60,194 or 5% to Total Sales but 5.5% to Merchandise Sales. A reasonable percentage for many markets. This represents a 12.7% increase over the 1988 paid amount $53,411. Perhaps a restructured plan based on gross profit is in order.

B. Can the firm afford a combined Labor Cost of $21,700 (presumably managerial portion) plus $36,090 as reported under Cost of Goods? This 1989 combined $57,790 Service Labor Costs for this size volume needs close review of productivity.

A. PHONEY COMPANY
12 MONTHS OPERATING STATEMENT

REVENUE	Ending 12/31/89	%	Ending 12/31/88	%
SALES				
Merchandise Sales	$1,089,453	89.3	$1,036,656	90.8
Labor Sales	46,520	3.8	41,218	3.6
Parts Sales	53,548	4.4	49,411	4.3
Service Contracts	30,812	2.5	14,331	1.3
Total Sales	1,220,333	100%	1,141,616	100%
COST OF SALES				
Merchandise	841,630	69.0	796,967	69.8
Labor	36,090	3.0	34,968	3.1
Parts	30,142	2.5	29,510	2.6
Service Contracts	19,720	1.6	9,450	0.8
Total Cost of Goods Sold	927,582	76.1	870,895	76.3
GROSS PROFIT	292,751	23.9	270,721	23.7
OPERATING EXPENSES				
Wages - Officers	45,833	3.8	43,521	3.8
- Office	15,628	1.3	14,481	1.3
- Sales	39,676	3.3	36,625	3.2
- Commissions	20,518	1.7	16,786	1.5
- Labor	21,700	1.8	19,851	1.7
Interest	9,833	0.8	7,141	0.6
Depreciation	12,514	1.0	8,757	0.8
Insurance & Taxes	15,516	1.3	10,308	0.9
Hospital - Employees	7,831	0.6	7,251	0.6
Payroll Taxes	16,457	1.3	13,684	1.2
Rent	14,700	1.2	14,700	1.3
Office Supplies	3,043	0.2	4,757	0.4
Telephone	3,306	0.2	3,075	0.3
Bank Charges	2,973	0.2	3,300	0.3
Dues & Subscriptions	4,496	0.4	4,643	0.4
Legal	2,275	0.2	1,680	0.1
Training	2,141	0.2	1,469	0.1
Vehicle Expense	8,322	0.7	6,850	0.6
Bad Debts	8,056	0.7	3,071	0.4
Postage	5,163	0.4	6,078	0.5
Utilities	10,058	0.8	10,445	0.9
Advertising	20,721	1.7	12,807	1.2
Miscellaneous Expense	3,418	0.3	2,189	0.2
Total Operating Expense	294,178	24.1	254,389	22.3
NET INCOME (LOSS) BEFORE TAXES	(1,427)	(0.2)	16,332	1.4
INCOME TAXES				
Federal	-0-		2,482	0.2
State	325	0.0	1,440	0.1
Total Income Taxes	325	0.0	3,922	0.3
NET INCOME	($1,752)	(0.1)	$ 12,410	1.1

C. Interest Costs rose 37.7% over 1988 ($9,833 + $7,141). Why? Inventory on hand? See Balance Sheet.

D. Insurance & Taxes climbed 50.5% in one year. Suggest you split out these costs. How much can be attributed to Taxes? Shouldn't insurance be purchased on annual quotes?

E. Vehicle Expense rose 20.9% while sales were up only 5.0%. Is proper routing of delivery and service being monitored? This was done before rising fuel costs.

F. Bad Debts. The increase of $4,985 in Loss, 1989 vs. 1988 (a 162% increase), is evidence of poor credit policy and collections administration.

G. Advertising increased 61.8%. The age old question is never answered. If you cut advertising to reduce costs would sales fall? Regardless of the market, someone is always buying something.

V. Net Income (Loss): the .2% Loss Before Taxes is important because the ($1,427) compared to a 1988 profit of $16,332 is a $17,759 swing in 12 months. This is an example of why monthly financials would allow action plans to be established before significant damage occurs to the health of the business.

Obviously, improvement may come in various combinations of management action.

1. **Improve Gross Margins** with sale of profitable models or brands, improve revenue in service labor/parts and service contracts.

2. **Reduce Cost of Goods** through better purchases.

3. **Cut Operating Costs** while holding or improving customer service.

Thus the challenge of management.

Now, a look at the **BALANCE SHEET.** This is only a snapshot of the firm on the last day of the year. Certainly on 12-31-89 this firm was overdrawn on cash. Look at trends.

1. Liquidity - Current Ratio: Here a banker wants to see the asset strength compared to money owed creditors close to 2/1. That is $2.00 for every $1.00 owed. Divide Current Assets by Current Liabilities to get this ratio.

2. Liquidity - Quick Assets Ratio: In this calculation Inventory is removed from the equation. This more accurately reflects the firm's ability to pay creditors without having to sell off inventory at reduced prices. Bankers like a 1/1 number.

A. Phoney Co.

Item	1989	1988
Current ratio	$1.21/ $1.00	$1.30/ $1.00
Quick assets ratio	$ .28/ $1.00	$ .38/ $1.00

3. Inventory: Inventory should be identified by category: merchandise, parts, service contracts. Since A. Phoney Co. lumped these together, its position cannot be analyzed to tell where the problem is. However the question is "why did Inventory increase 30.4% when Sales climbed modestly?" Did this increase Interest expense?

4. Property & Equipment: Another vehicle was purchased. Necessity? Perk?

5. Accounts Payable: Indebtedness to be paid and likely due to Invenory build up.

6. Inventory Turns: Divide the Cost of Goods Sold by the Average Inventory (1988 + 1989 + 2) to get turns. The 5.10 results is certainly acceptable despite a financial operating loss.

7. Net Working Capital: Current Assets minus Current Liabilities. A. Phoney Co. went from $49,677 (1988) to $44,520 (1989). Remember this includes Inventory. It is important for this firm to do a monthly cash flow projection. If there are operational difficulties, the owner can forecast cash balances before committing expenses.

A. PHONEY COMPANY

BALANCE SHEET AS OF DECEMBER 31, 1989

ASSETS

	12-31-89	12-31-88
CURRENT ASSETS		
Cash - checking	$ (1,131)	$ 3,129
Cash - other	130	130
Accounts Receivable	51,604	54,070
Inventory	197,927	151,737
Prepaid Expenses	2,984	381
Notes Receivable	5,350	5,351
Total Current Assets	256,864	214,798
PROPERTY & EQUIPMENT		
Buildings	143,826	143,826
Equipment	14,023	14,024
Automobiles & Trucks	38,691	20,859
Accumulated Depreciation	(84,991)	(80,125)
Total Property & Equipment	111,550	98,584
TOTAL ASSETS	368,415	313,382

LIABILITIES & EQUITY

CURRENT LIABILITIES		
Accounts Payable	196,403	145,027
Taxes Payable	15,391	15,565
Accrued Expenses	551	4,529
Total Current Liabilities	212,345	165,121
LONG-TERM LIABILITIES	100,018	90,456
TOTAL LIABILITIES	312,363	255,577
EQUITY		
Capital Stock	15,000	15,000
Retained Earnings	42,804	30,395
Current Year Income (Loss)	(1,752)	12,410
TOTAL EQUITY	56,052	57,805
TOTAL LIABILITIES & EQUITY	$368,415	$313,382

EXPLANATION OF KEY RATIOS

CURRENT ASSETS RATIO

Current assets divided by current liabilities.

This ratio is probably one of the most used liquidity ratios. The current ratio is a measure of the most liquid assets (current assets) relative to the shortest maturity liabilities.

A high current ratio indicates high liquidity and less risk of financial trouble. Too high a ratio might indicate an unnecessary investment in current assets or a failure to collect receivables or a bloated inventory, all negatively affecting earnings. Too low a ratio implies low liquidity and potential for being unable to meet current liabilities. A good standard is 1.8 to 1, or above. That is, the business has $1.80 in current assets for every dollar it owes in current debts.

QUICK ASSETS RATIO

Current assets, minus inventory, divided by current liabilities.

This ratio shows the ability of a business to pay its debts without taking inventory into consideration. Bankers consider it to be a key ratio. 1 to 1 is acceptable. 0.5 to 1 or below shows that inventory makes up too large a portion of working capital and that the business could have trouble paying its debts.

INVENTORY TURNS

Cost of goods sold divided by the average inventory (beginning inventory, plus ending inventory, divided by 2).

Less than 4 turns indicates either a decline in sales or an over-inventoried position. Over 9 turns may indicate inventory is impractically low and unable to meet customer demand. Dealers should strive for 4 to 6 turns yearly, or two or three months of inventory.

NET RETURN ON INVESTMENT

Net profit (before taxes, and after owner's salary) divided by net worth.

This ratio indicates the yield on money invested in the business. If this percentage is less than current investment rates, consideration should be given to investing your capital in money market funds, certificates of deposit, government securities, etc.

10 East 22nd Street, Suite 310, Lombard, Illinois 60148
Phone 708-953-8950

A7025-1-U

NARDA
NATIONAL ASSOCIATION
RETAIL DEALERS
OF AMERICA

NASD
NATIONAL ASSOCIATION
OF SERVICE DEALERS
a division of NARDA

1991 Costs of Doing Business Survey

COVERING THE YEAR 1990

$50 PER COPY

Published annually since 1946 by
NARDA, Inc.
10 E. 22nd St., Suite 310
Lombard, IL 60148

Copyright 1991 by NARDA, Inc. Permission is hereby granted to reprint portions of this report provided that credit is given to: NARDA, Inc. 10 E. 22nd St., Lombard, IL 60148

CONTENTS

Introduction 5

Comparison Charts

- Overall Gross Margins 5
- Gross Margin Breakdown 6
- Inventory Turns, Net Profits 7
- Selected Operating Expenses 7
- Net Return on Investment 7

Profit & Loss Statements

- Appliance & Electronics Sales & Service 8
- Appliance Sales & Service 8
- Electronics Sales & Service 9
- Appliance, Electronics & Furniture Sales 9
- Electronics Service 10
- Appliance Service 10

Business Profiles

- Appliance & Electronics Sales & Service 11
- Appliance Sales & Service 11
- Electronics Sales & Service 11
- Appliance, Electronics & Furniture Sales 12
- Electronics Service 12
- Appliance Service 12

Explanation of Key Ratios 14

NARDA/NASD Member Services 15

NARDA
NATIONAL ASSOCIATION RETAIL DEALERS OF AMERICA

NASD
NATIONAL ASSOCIATION OF SERVICE DEALERS

ANNUAL COSTS OF DOING BUSINESS SURVEY

This is the 45th annual Costs of Doing Business Survey published by NARDA. It covers the year 1990.

The charts on this and the following pages will give you an industry-at-a-glance overview of comparative operating results. The survey provides the averages obtained from participants' profit and loss statements, as well as statistics profiling characteristics of the "average" business for various product mixes.

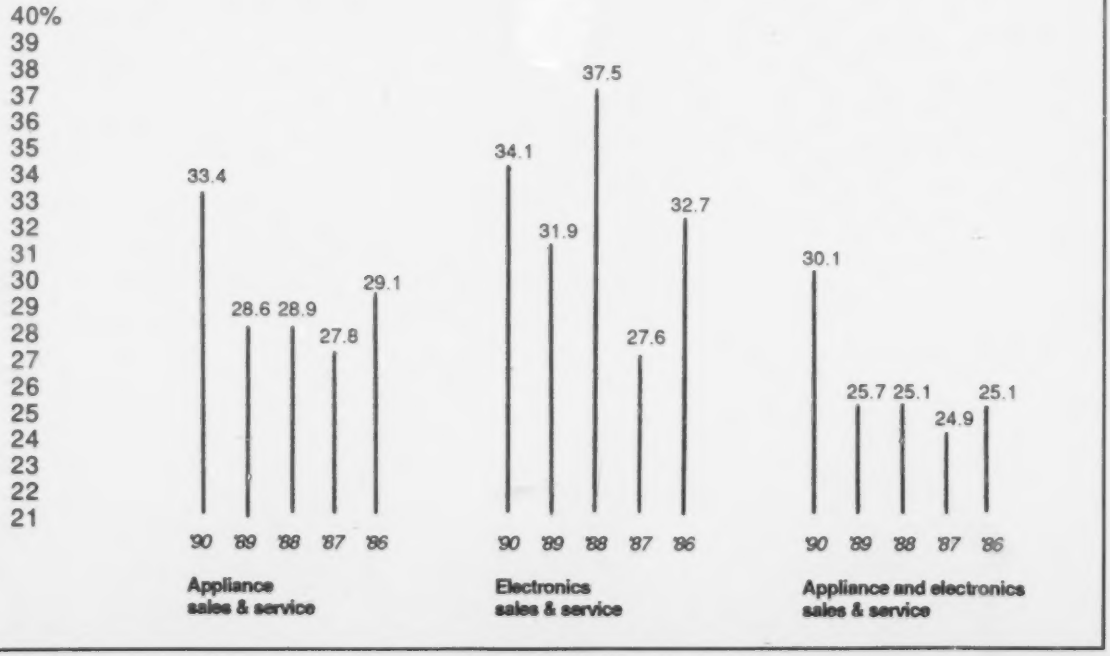
When using this report to compare your financials with industry averages, keep in mind that the averages in this report are based on a range of dealerships, from the most profitable to the least profitable and those in between. The averages are not industry standards or goals.They are indicators of how the mathematically "average" dealer which responded to this survey performs.

If your business is substantially above or below that average in any area, you should re-examine your goals, management philosophy and results to make sure your company is performing according to your standards and to determine how you can improve that performance.

NARDA can help with a variety of member services ranging from in-store consultations to seminars on all aspects of retail and service management, plus low group rates on business necessities such as health and business insurance, sales training materials and bank card discounts.

For more information call (708) 953-8950.

Overall Gross Margins



Gross Margin Breakdown

	Merchandise sales				Service contract sales			
	'90	*'89*	*'88*	*'87*	*'90*	*'89*	*'88*	*'87*
Appl./Elec. sales & service	23.3	23.6	22.3	22.4	77.1	73.5	74.9	77.1
Appliance sales & service	24.0	27.1	25.9	23.6	63.9	48.9	41.2	86.1
Electronics sales & service	30.8	26.0	29.5	24.0	77.8	66.7	92.0	75.0
Electronics service only	--	--	--	--	44.0	N/A	55.3	67.9
Appliance service only	--	--	--	--	54.0	N/A	58.1	67.6

	Service labor sales				Parts sales			
	'90	*'89*	*'88*	*'87*	*'90*	*'89*	*'88*	*'87*
Appl./Elec. sales & service	44.0	46.6	41.9	40.9	35.1	34.3	34.4	34.6
Appliance sales & service	55.3	48.1	42.2	47.9	40.0	33.1	33.2	37.6
Electronics sales & service	48.2	57.7	51.3	40.1	31.0	33.3	18.0	41.3
Electronics service only	55.9	56.4	59.2	56.7	38.1	36.4	44.3	30.2
Appliance service only	59.4	60.7	63.4	61.9	36.9	38.1	35.6	39.2

Inventory Turns & Net Profits

	Number of Inventory Turns not including parts					Net Profit (percent) before taxes				
	'90	'89	'88	'87	'86	'90	'89	'88	'87	'86
Appliance/Electronics sales and service	3.6	3.7	3.9	4.2	3.8	(.42)	1.96	1.09	1.60	1.74
Appliances sales & service	3.2	3.3	4.4	5.2	3.9	3.06	.76	1.20	.76	2.70
Electronics sales & service	2.1	2.5	3.4	3.5	3.6	1.29	(.96)	2.65	1.96	.94

Net return on investment

	1990	1989	1988	1987
Appliance & electronics sales & service	19.3%	20.5%	11.3%	13.7%
Appliance sales & service	17.6	18.3	11.4	09.8
Electronics sales & service	16.6	18.0	13.0	16.4
Electronics service only	07.1	06.2	43.9	17.2
Appliance service only	12.2	15.6	23.4	12.8

Selected Operating Expenses as a percent of sales

	ADVERTISING and promotion, net after co-op				SALES COMPENSATION salaries and/or commission				OCCUPANCY rent or building depreciation			
	'90	'89	'88	'87	'90	'89	'88	'87	'90	'89	'88	'87
Appl./Elec. sales & service	2.37	2.69	2.99	3.15	4.30	4.19	4.17	4.47	2.21	2.03	2.26	2.11
Appliance sales & service	2.10	3.36	3.77	2.99	2.68	3.56	2.89	2.90	2.80	2.41	2.60	2.47
Electronics sales & service	4.10	2.67	2.87	3.15	7.42	4.95	6.83	4.43	2.43	3.67	3.75	2.25

PROFIT & LOSS STATEMENT

	Appliance & electronics sales & service		Appliance sales & service	
NET SALES		100.00		100.00
Merchandise Sales	100		100	
Labor Sales	100		100	
Parts Sales	100		100	
Service Contract Sales	100		100	
COST OF SALES		69.91		66.60
Cost of Merchandise	76.75		76.05	
Cost of Labor	55.98		44.66	
Cost of Parts	64.86		60.05	
Cost of Service Contract Sales	22.91		36.09	
GROSS MARGIN		30.09		33.40
TOTAL OPERATING COSTS		30.52		30.34
Owner and Manager Salaries	3.30		5.84	
Office Salaries	2.01		3.44	
Sales Salaries	4.30		2.68	
Delivery Wages	1.57		1.48	
Other Payroll	1.47		0.42	
Employee Benefits	0.68		0.18	
Payroll Taxes	1.19		1.58	
Insurance - Group Life & Health	0.69		0.93	
Insurance - Property & Liability	0.57		0.93	
Rent or Building Depreciation	2.21		2.80	
Utilities	0.71		0.75	
Telephone	0.31		0.55	
Yellow Page Advertising	0.13		0.56	
Other Advertising & Promotion	2.24		1.60	
Vehicle Lease and/or Expense	0.63		1.09	
Equipment Lease and/or Expense	0.19		0.27	
Depreciation	0.56		1.22	
Licenses & Taxes	2.02		0.40	
Supplies	2.07		0.78	
Professional Fees	0.20		0.39	
Travel & Training Expense	0.15		0.27	
Bad Debts	0.69		0.35	
Collection Costs	0.30		0.01	
Dues & Subscriptions	0.12		0.18	
Bank Card & Bank Expense	0.40		0.56	
Miscellaneous Expense	1.04		0.52	
NET OPERATING PROFIT		1.26		0.17
OTHER INCOME		1.68		1.53
Interest Income	0.50		0.42	
Supplier Rebates	0.71		0.75	
Other	0.47		0.36	
TOTAL INCOME				
OTHER EXPENSE		0.96		0.96
Interest Paid	0.74		0.59	
Other	0.22		0.37	
TOTAL NET PROFIT BEFORE INCOME TAXES		(0.42)		3.06

PROFIT & LOSS STATEMENT

	Electronics sales & service		Appl./electronics & furniture sales	
NET SALES		100.00		100.00
Merchandise Sales	100		100	
Labor Sales	100		000	
Parts Sales	100		000	
Service Contract Sales	100		100	
COST OF SALES		65.87		74.14
Cost of Merchandise	69.16		74.75	
Cost of Labor	51.82		00.00	
Cost of Parts	69.10		00.00	
Cost of Service Contract Sales	22.17		36.81	
GROSS MARGIN		34.13		25.86
TOTAL OPERATING COSTS		32.84		26.17
Owner and Manager Salaries	4.47		2.68	
Office Salaries	1.90		1.68	
Sales Salaries	7.42		4.23	
Delivery Wages	0.28		2.36	
Other Payroll	1.51		0.66	
Employee Benefits	0.31		0.22	
Payroll Taxes	1.66		0.97	
Insurance - Group Life & Health	0.79		0.72	
Insurance - Property & Liability	0.74		0.59	
Rent or Building Depreciation	2.43		2.06	
Utilities	0.57		0.56	
Telephone	0.53		0.23	
Yellow Page Advertising	0.33		0.11	
Other Advertising & Promotion	3.77		3.48	
Vehicle Lease and/or Expense	0.86		0.56	
Equipment Lease and/or Expense	0.19		0.70	
Depreciation	0.85		0.52	
Licenses & Taxes	0.62		0.36	
Supplies	0.52		0.41	
Professional Fees	0.19		0.24	
Travel & Training Expense	0.24		0.17	
Bad Debts	0.12		0.19	
Collection Costs	0.03		0.05	
Dues & Subscriptions	0.12		0.15	
Bank Card & Bank Expense	0.93		0.73	
Miscellaneous Expense	1.17		0.57	
NET OPERATING PROFIT				
OTHER INCOME		0.67		2.49
Interest Income	0.07		1.11	
Supplier Rebates	0.08		0.60	
Other	0.52		0.78	
TOTAL INCOME				
OTHER EXPENSE		0.99		1.03
Interest Paid	0.92		0.62	
Other	0.07		0.41	
TOTAL NET PROFIT BEFORE INCOME TAXES		1.29		(.31)

PROFIT & LOSS STATEMENT

	Electronics service only		Appliance service only	
NET SALES		100.00		100.00
Merchandise Sales	000		000	
Labor Sales	100		100	
Parts Sales	100		100	
Service Contract Sales	100		100	
COST OF SALES		54.32		49.31
Cost of Merchandise	00.00		00.00	
Cost of Labor	44.06		40.65	
Cost of Parts	61.92		63.10	
Cost of Service Contract Sales	56.00		46.00	
GROSS MARGIN		45.68		50.69
TOTAL OPERATING COSTS		40.01		48.13
Owner and Manager Salaries	4.23		4.91	
Office Salaries	9.70		9.80	
Sales Salaries	–		–	
Delivery Wages	0.55		0.50	
Other Payroll	0.67		0.48	
Employee Benefits	0.58		0.93	
Payroll Taxes	3.62		4.25	
Insurance - Group Life & Health	2.30		2.51	
Insurance - Property & Liability	2.10		3.70	
Rent or Building Depreciation	4.60		4.10	
Utilities	0.40		0.80	
Telephone	1.44		1.92	
Yellow Page Advertising	1.75		1.90	
Other Advertising & Promotion	0.50		1.53	
Vehicle Lease and/or Expense	2.70		2.84	
Equipment Lease and/or Expense	1.41		0.90	
Depreciation	0.27		1.67	
Licenses & Taxes	0.04		0.56	
Supplies	1.08		1.81	
Professional Fees	0.13		0.54	
Travel & Training Expense	0.09		0.76	
Bad Debts	0.10		0.13	
Collection Costs	0.01		0.03	
Dues & Subscriptions	0.10		0.08	
Bank Card & Bank Expense	0.02		0.01	
Miscellaneous Expense	1.53		1.06	
NET OPERATING PROFIT				
OTHER INCOME		0.24		0.68
Interest Income	0.24		0.44	
Supplier Rebates	0.00		0.00	
Other	0.00		0.24	
TOTAL INCOME				
OTHER EXPENSE		0.33		1.09
Interest Paid	0.33		0.91	
Other	0.00		0.18	
TOTAL NET PROFIT BEFORE INCOME TAXES		5.67		2.15

BUSINESS PROFILE

	Appliance & electronics sales & service	Appliance sales & service	Electronics sales & service
PERSONNEL			
Owners/managers	14.2%	12.4%	14.9%
Sales	26.3%	37.6%	34.5%
Service	19.6%	20.5%	25.9%
Office	10.7%	14.7%	10.8%
Delivery	15.6%	11.8%	05.1%
Other	13.5%	03.0%	08.8%
$ Sales per employee	*See individual breakdowns by sales volume*		
$ Sales per salesperson			
COMPENSATION			
Salary only	27%	38%	25%
Commission only	33%	22%	20%
Salary & commission	40%	40%	50%
Other	--	00%	--
Average hourly technician wage	$11.25	$ 9.80	$10.05
Commission based on			
Selling price	25%	31%	26%
Gross profit	34%	31%	44%
Bonus	08%	14%	12%
Spiffs	33%	24%	18%
ADVERTISING *percent of budget used for*			
Newspaper	60%	53%	40%
Television Cable	11%	08%	08%
VHF-UHF	02%	00%	01%
Radio	15%	19%	14%
Yellow Pages	04%	14%	23%
Direct Mail	07%	05%	14%
Other	01%	01%	00%
SPACE *avg. sq. ft. per location*			
Sales	*See individual breakdowns by sales volume*		
Office			
Service			
Warehouse			
Average number of locations			
Average $ sales per sq.ft. selling space			
Average $ sales per sq.ft. total space			
MISCELLANEOUS			
% of dealers selling service contracts	92%	86%	92%
% of service contracts self-funded	27%	15%	28%
RATIOS			
Inventory turns - product	3.60	3.22	2.05
Inventory turns - parts & access.	2.32	3.19	1.87
Current ratio	1.38 to 1	1.62 to 1	2.51 to 1
Quick assets ratio	1.11 to 1	0.99 to 1	0.70 to 1
Net return on investment	19.32%	17.62%	16.55%

BUSINESS PROFILE

	Appl./electronics & furniture sales	Electronics service only	Appliance service only
PERSONNEL			
Owners/managers	15.4%	15.3%	18.1%
Sales	29.5%	--	--
Service	09.8%	62.1%	54.6%
Office	18.7%	15.5%	21.2%
Delivery	22.0%	05.0%	03.8%
Other	04.6%	02.1%	02.3%
$ Sales per employee	--	36,422	42,460
$ Sales per salesperson	--	--	--
COMPENSATION			
Salary only	25%	26%	60%
Commission only	17%	07%	--
Salary & commission	48%	44%	40%
Other	00%	23%	--
Average hourly technician wage	--	$12.29	$11.23
Commission based on			
Selling price	43%	100%	100%
Gross profit	28%	--	--
Bonus	06%	--	--
Spiffs	23%	--	--
ADVERTISING *percent of budget used for*			
Newspaper	52%	06%	05%
Television Cable	11%	09%	03%
VHF-UHF	01%	00%	00%
Radio	14%	07%	01%
Yellow Pages	05%	67%	81%
Direct Mail	15%	04%	03%
Other	02%	07%	07%
SPACE *avg. sq. ft. per location*			
Sales	--	--	--
Office	--	1,402	891
Service	--	2,405	2,592
Warehouse	--	1,291	928
Average number of locations	--	1.2	1.3
Average $ sales per sq.ft. selling space	--	--	--
Average $ sales per sq.ft. total space	--	93	86
MISCELLANEOUS			
% of dealers selling service contracts	87%	08%	12%
% of service contracts self-funded	14%	07%	16%
RATIOS			
Inventory turns - product	4.25	--	--
Inventory turns - parts & access.	3.75	2.60	3.75
Current ratio	1.70 to 1	4.90 to 1	3.40 to 1
Quick assets ratio	0.62 to 1	3.40 to 1	1.60 to 1
Net return on investment	9.35%	7.10%	12.20%

Appliance & Electronics Sales & Service by annual sales volume

	Under 1 MM	1-3 MM	3-5 MM	over 5 MM
$ Sales per Employee	119,162	153,666	194,784	159,703
$ Sales per Salesperson	525,714	545,231	719,063	601,352
Space avg. sq. ft. per location				
Sales	4,572	4,539	6,361	6,705
Office	902	423	731	1,325
Service	378	989	1,451	1,589
Warehouse	2,984	3,978	6,300	5,694
Average number locations	1.3	1.7	1.9	2.6
Avg. $ sales per sq. ft. selling space	144	245	525	454
Avg. $ sales per sq. ft. total space	75	112	225	198

Appliance Sales & Service by annual sales volume

	Under 1 MM	1-3 MM	3-5 MM	over 5 MM
$ Sales per Employee	100,379	131,500	169,230	N/A
$ Sales per Salesperson	461,743	493,128	622,523	N/A
Space avg. sq. ft. per location				
Sales	1,241	4,583	6,320	N/A
Office	622	1,332	920	N/A
Service	171	664	1,669	N/A
Warehouse	1,674	5,076	8,774	N/A
Average number locations	1.6	1.0	2.2	N/A
Avg. $ sales per sq. ft selling space	293	368	552	N/A
Avg. $ sales per sq. ft. total space	98	145	176	N/A

Electronics Sales & Service by annual sales volume

	Under 1 MM	1-3 MM	3-5 MM	over 5 MM
$ Sales per Employee	123,801	124,533	N/A	157,214
$ Sales per Salesperson	406,777	447,842	N/A	393,036
Space avg. sq. ft. per location				
Sales	1,628	1,882	N/A	6,600
Office	240	288	N/A	1,266
Service	834	884	N/A	2,033
Warehouse	1,083	1,462	N/A	3,100
Average number locations	1.3	2.0	N/A	3.2
Avg. $ sales per sq. ft. selling space	349	537	N/A	681
Avg. $ sales per sq. ft. total space	263	363	N/A	341

EXPLANATION OF KEY RATIOS

CURRENT ASSETS RATIO

Current assets divided by current liabilities.

This ratio is probably one of the most used liquidity ratios. The current ratio is a measure of the most liquid assets (current assets) relative to the shortest maturity liabilities.

A high current ratio indicates high liquidity and less risk of financial trouble. Too high a ratio might indicate an unnecessary investment in current assets or a failure to collect receivables or a bloated inventory, all negatively affecting earnings. Too low a ratio implies low liquidity and potential for being unable to meet current liabilities. A good standard is 1.8 to 1, or above. That is, the business has $1.80 in current assets for every dollar it owes in current debts.

QUICK ASSETS RATIO

Current assets, minus inventory, divided by current liabilities.

This ratio shows the ability of a business to pay its debts without taking inventory into consideration. Bankers consider it to be a key ratio. 1 to 1 is acceptable. 0.5 to 1 or below shows that inventory makes up too large a portion of working capital and that the business could have trouble paying its debts.

INVENTORY TURNS

Cost of goods sold divided by the average inventory (beginning inventory, plus ending inventory, divided by 2).

Less than 4 turns indicates either a decline in sales or an over-inventoried position. Over 9 turns may indicate inventory is impractically low and unable to meet customer demand. Dealers should strive for 4 to 6 turns yearly, or two or three months of inventory.

NET RETURN ON INVESTMENT

Net profit (before taxes, and after owner's salary) divided by net worth.

This ratio indicates the yield on money invested in the business. If tl percentage is less than current investment rates, consideration should be given to investing your capital in money market funds, certificates of deposit, government securities, etc.

MEMBER SERVICES, PROGRAMS AND RESOURCES

Institute of Management

NARDA Business School

NASD School of Service Mgmt.

Annual Convention & Expo

Regional Field Seminars

Scholarship Foundation

In-Store Consultations

Telephone Consultations

Financial Statement Evaluations

Costs of Doing Business Survey

Legal Opinions

Video and Audio Tapes

Books and Publications

Pre-employment Testing

Long Distance Telephone Service

Check Authorization Program

In-store Promotion Kits

Advertising Clipping Service

Facility Location Research

Representation in Washington

Supplier Affiliation & Partnership

Silent Shopper

Business Management Systems

AD&D Insurance Program

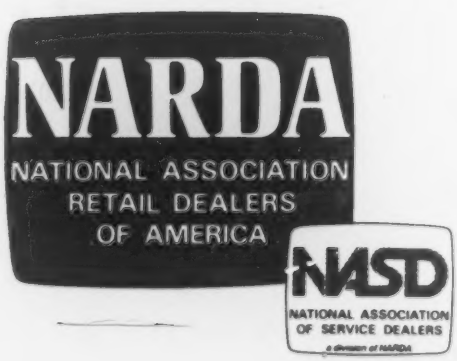
NARDA Credit Union

Health, Life & Business Insurance

Bank Card Discount Program

FOR MORE INFORMATION ON ANY NARDA/NASD PROGRAM, CALL OR WRITE:

NARDA, Inc.
10 East 22nd Street, Suite 310
Lombard, Illinois 60148
708-953-8950



10 East 22nd Street, Suite 310, Lombard, Illinois 60148
Phone 708-953-8950